

SLC Turnberry Limited

Financial statements for the year ended 31 December 2001
together with directors' and independent auditors' reports

Registered number: SC177810

SCT S12KYCMB 1241
COMPANIES HOUSE 19/07/02



SCT S117HCX8 0152
COMPANIES HOUSE 30/07/02

Directors' report

For the year ended 31 December 2001

The directors present their report on the affairs of the company together with the financial statements and auditors' report for the year ended 31 December 2001.

Principal activity and business review

The principal activity of SLC Turnberry Limited is the ownership and management of hotel and associated leisure facilities.

Results and dividends

The turnover for the year was £13,159,685 (2000 - £11,948,601) and the loss on ordinary activities before and after tax was £1,904,018 (2000 - £977,339).

Directors and their interests

The directors of the company during the year were:

T.W. Darnhall

M.P. Wale

S. Selbie

R. L. Scott

No director had a beneficial interest in the shares of the company at any time during the year.

Directors' report (continued)

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of its profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

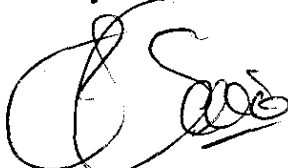
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution will be submitted at the annual general meeting to appoint auditors for the ensuing year.

Turnberry Hotel
Ayrshire
KA26 9LT

By order of the Board

A handwritten signature in black ink, appearing to read 'S. Selbie', written over a horizontal line.

S. Selbie
Director

28 June 2002

To the Shareholders of SLC Turnberry Limited

We have audited the financial statements of SLC Turnberry Limited for the year ended 31 December 2001 which comprise the profit and loss account and balance sheet and the related notes numbered 1 to 19. These financial statements have been prepared under the accounting policies therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

191 West George Street

Glasgow

G2 2LB

28 June 2002

Profit and loss account

For the year ended 31 December 2001

| | Notes | 2001 £ | 2000 £ |
|---|-------|--------------------|--------------------|
| Turnover | 2 | 13,159,685 | 11,948,601 |
| Cost of sales | | <u>(7,735,339)</u> | <u>(6,276,564)</u> |
| Gross profit | | 5,424,346 | 5,672,037 |
| Other operating expenses (net) | 3 | <u>(5,949,728)</u> | <u>(5,313,932)</u> |
| Operating (loss)/profit | | (525,382) | 358,105 |
| Interest payable and similar charges | 4 | <u>(1,378,636)</u> | <u>(1,335,444)</u> |
| Loss on ordinary activities before tax | | (1,904,018) | (977,339) |
| Taxation | 7 | <u>-</u> | <u>-</u> |
| Retained loss for the year | 16 | <u>(1,904,018)</u> | <u>(977,339)</u> |

The company has no recognised gains or losses other than the loss for each year.

The current year results have been derived wholly from continuing operations.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet
31 December 2001

| | Notes | 2001 £ | 2000 £ |
|--|-------|---------------------|---------------------|
| Fixed assets | | | |
| Tangible assets | 8 | 40,474,519 | 39,843,702 |
| Investments | 9 | 3,331,020 | 3,331,020 |
| | | <u>43,805,539</u> | <u>43,174,722</u> |
| Current assets | | | |
| Stocks | 10 | 769,250 | 524,185 |
| Debtors: Amounts falling due within one year | 11 | 1,121,807 | 1,121,028 |
| Cash at bank and in hand | | 358,030 | 403,695 |
| | | <u>2,249,087</u> | <u>2,048,908</u> |
| Creditors: Amounts falling due within one year | 12 | <u>(11,314,941)</u> | <u>(10,042,741)</u> |
| Net current liabilities | | <u>(9,065,854)</u> | <u>(7,993,833)</u> |
| Total assets less current liabilities | | 34,739,685 | 35,180,889 |
| Creditors: Amounts falling due after more than one year | 13 | <u>(18,462,810)</u> | <u>(17,799,996)</u> |
| Net assets | | <u>16,276,875</u> | <u>17,380,893</u> |
| Capital and reserves | | | |
| Called-up share capital | 15 | 2 | 2 |
| Additional paid in capital | 16 | 18,373,674 | 17,573,674 |
| Profit and loss account | 16 | <u>(2,096,801)</u> | <u>(192,783)</u> |
| Total capital employed | | <u>16,276,875</u> | <u>17,380,893</u> |

Signed on behalf of the Board



S. Selbie
Director

28 June 2002

The accompanying notes are an integral part of this balance sheet.

Notes to the financial statements

For the year ended 31 December 2001

1 Statement of accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year is set out below.

a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The company has elected under Section 229 of the Companies Act 1985 not to consolidate Nitto World Co., Limited as its inclusion is not material for the purpose of giving a true and fair view as the company does not trade.

b) Cash flow statement

The company has taken advantage of the exemption in FRS 1 to dispense with the requirement to include a cash flow statement in its financial statements as its results are incorporated into the financial statements of Starwood Hotels and Resorts Worldwide Inc., which are available to the public.

c) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment as set out in note 8.

Depreciation on tangible fixed assets is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis using the following annual rates which are based on the expected useful economic lives of the assets:

| | |
|---------------------|-----------|
| Buildings | 2.5% |
| Plant and equipment | 5% to 50% |

Residual value is calculated on prices prevailing at the date of acquisition.

d) Investments

Fixed asset investments are shown at cost less provision for impairment.

e) Stocks

Stocks are stated at the lower of cost and net realisable value.

f) Foreign currency

Transactions denominated in foreign currencies are recorded in sterling at exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported as an exchange gain or loss in the profit and loss account.

1 Statement of accounting policies (continued)

g) Turnover

Turnover is stated at the invoiced value of goods and services provided, exclusive of VAT and net of discounts granted.

h) Leases

Assets acquired under finance leases are initially reported at the fair value of the asset with an equivalent obligation categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Obligations relating to finance leases represent the total of the minimum lease payments outstanding at the date of the balance sheet. Future finance charges are not included. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance.

Rentals under operating leases are charged on a straight-line basis over the lease term. Further information on charges in the year and future commitments is given in note 17.

i) Taxation

UK corporation tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced.

j) Pension contributions

The company operates a defined benefit pension scheme. Pension contributions are charged to the profit and loss account on the basis of spreading the cost of providing pensions over the period of employees' services to the company. Further information on this scheme is provided in note 17c).

Notes to the financial statements (continued)

2 Segment information

The turnover of the company relates solely to the provision of hotel and associated leisure facilities.

3 Other operating expenses (net)

| | 2001 £ | 2000 £ |
|-----------------------------|------------------|------------------|
| Selling and marketing costs | 1,313,123 | 1,094,620 |
| Administrative expenses | 4,636,605 | 4,219,312 |
| | <u>5,949,728</u> | <u>5,313,932</u> |

4 Interest payable and similar charges

| | 2001 £ | 2000 £ |
|---------------------------------|------------------|------------------|
| Bank interest | 3,635 | 14,514 |
| On intercompany loans (note 13) | 652,000 | 647,742 |
| On promissory notes (note 13) | 723,001 | 673,188 |
| | <u>1,378,636</u> | <u>1,335,444</u> |

5 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation for the year is stated after charging:

| | 2001 £ | 2000 £ |
|-----------------------------|---------------|---------------|
| Depreciation | 1,309,804 | 1,070,181 |
| Auditors' remuneration | | |
| - audit services | 26,000 | 25,000 |
| - non-audit services | 10,225 | 10,000 |
| Staff costs (note 6) | 4,816,546 | 3,628,859 |
| Hire of plant and machinery | | |
| - under operating leases | <u>95,768</u> | <u>85,339</u> |

Notes to the financial statements (continued)

6 Staff costs

Particulars of employees are as shown below:

| | 2001 £ | 2000 £ |
|---|------------------|------------------|
| Employee costs during the year amounted to: | | |
| Wages and salaries | 4,407,572 | 3,254,884 |
| Social security costs | 311,059 | 281,569 |
| Other pension costs | 97,915 | 92,406 |
| | <u>4,816,546</u> | <u>3,628,859</u> |

The average monthly number of persons employed by the company during the year was as follows:

| | 2001 Number | 2000 Number |
|-------------------------------|----------------|----------------|
| Administration and management | 44 | 49 |
| Casual | 271 | 188 |
| | <u>315</u> | <u>237</u> |

Remuneration

The remuneration of the directors was as follows:

| | 2001 £ | 2000 £ |
|------------|----------------|----------------|
| Emoluments | <u>149,328</u> | <u>123,042</u> |

Pensions

The number of directors who were members of pension schemes was as follows:

| | 2001 Number | 2000 Number |
|-------------------------|----------------|----------------|
| Defined benefit schemes | <u>1</u> | <u>1</u> |

7 Taxation

No tax charge arose in either year due to the availability of losses within the group.

Notes to the financial statements (continued)

8 Tangible fixed assets

The following are included in the net book value of tangible fixed assets:

| | 2001 £ | 2000 £ |
|-----------------------------|-------------------|-------------------|
| Freehold land and buildings | 37,315,169 | 36,931,038 |
| Plant and equipment | 3,159,350 | 2,912,664 |
| | <u>40,474,519</u> | <u>39,843,702</u> |

The movement in the year was as follows:

| | Freehold land & buildings £ | Plant & equipment £ | Total £ |
|-----------------------|--------------------------------------|---------------------------|-------------------|
| Cost | | | |
| Beginning of year | 39,190,729 | 3,560,424 | 42,751,153 |
| Additions | 1,302,572 | 638,049 | 1,940,621 |
| End of year | <u>40,493,301</u> | <u>4,198,473</u> | <u>44,691,774</u> |
| Depreciation | | | |
| Beginning of year | 2,259,691 | 647,760 | 2,907,451 |
| Charge | 918,441 | 391,363 | 1,309,804 |
| End of year | <u>3,178,132</u> | <u>1,039,123</u> | <u>4,217,255</u> |
| Net book value | | | |
| Beginning of year | <u>36,931,038</u> | <u>2,912,664</u> | <u>39,843,702</u> |
| End of year | <u>37,315,169</u> | <u>3,159,350</u> | <u>40,474,519</u> |

Plant and equipment includes £3,305 (2000 - £35,641) of assets at net book value held under finance leases.

Notes to the financial statements (continued)

9 Fixed asset investments

The following are included in the net book value of fixed asset investments:

| | 2001 £ | 2000 £ |
|-------------------------|------------------|------------------|
| Subsidiary undertakings | <u>3,331,020</u> | <u>3,331,020</u> |

The movement during the year was as follows:

| | Subsidiary Undertakings £ |
|--------------------------------|---------------------------------|
| Cost and net book value | |
| Beginning and end of year | <u>3,331,020</u> |

The above investment represents the company's investment in the following subsidiary undertaking:

| | Country of registration | Principal activity | Description & proportion of shares held |
|--------------------------|----------------------------|--------------------|--|
| Nitto World Co., Limited | England | Non-trading | 100% ordinary share capital |

Notes to the financial statements (continued)

10 Stocks

The following are included in stocks:

| | 2001 £ | 2000 £ |
|--------------------------------|----------------|----------------|
| Glass, crockery and silverware | 208,119 | 104,511 |
| Food and beverage | 32,547 | 51,299 |
| Goods held for resale | 498,187 | 308,737 |
| Other | 30,397 | 59,638 |
| | <u>769,250</u> | <u>524,185</u> |

The directors consider that there is no significant difference between the balance sheet value and the replacement cost of stocks at the balance sheet date.

11 Debtors

The following are included in debtors:

| | 2001 £ | 2000 £ |
|--------------------------------------|------------------|------------------|
| Amounts falling due within one year: | | |
| Trade debtors | 932,593 | 638,463 |
| Prepayments and accrued income | 135,818 | 90,166 |
| Other debtors | 53,396 | 392,399 |
| | <u>1,121,807</u> | <u>1,121,028</u> |

12 Creditors: Amounts falling due within one year

The following amounts are included in creditors falling due within one year:

| | 2001 £ | 2000 £ |
|---|-------------------|-------------------|
| Trade creditors | 590,632 | 848,009 |
| Amounts due to other group undertakings | 9,106,571 | 8,046,509 |
| Obligations under finance leases | - | 13,693 |
| Accruals and deferred income | 987,936 | 588,106 |
| VAT | 83,378 | - |
| Intercompany loan (note 13) | 546,424 | 546,424 |
| | <u>11,314,941</u> | <u>10,042,741</u> |

Notes to the financial statements (continued)

13 Creditors: Amounts falling due after more than one year

The following amounts are included in creditors falling due after more than one year:

| | 2001 £ | 2000 £ |
|--------------------|-------------------|-------------------|
| Intercompany loans | 11,119,002 | 10,819,002 |
| Promissory note | 7,343,808 | 6,980,994 |
| | <u>18,462,810</u> | <u>17,799,996</u> |

Interest on the promissory note is charged at 10% per annum. Intercompany loans represents a non-interest bearing loan of £2,000,000 (2000 - £1,700,000) from Sheraton Hotels England Limited and a loan of £9,119,002 (2000 - £9,119,002) from Sheraton Hotels UK Limited. Interest on the loan from Sheraton Hotels UK Limited is charged at libor plus an additional variable margin. At 31 December 2001 the interest was 6.25% (2000 - 6.99%).

The loan from Sheraton Hotels England Limited (SHEL) has no fixed repayment terms or maturity date although SHEL have confirmed that repayment will not be due for at least one year. Repayments are made when funds are available and as a result this loan has been included within intercompany loans due after five years.

Borrowings are repayable as follows:

| | 2001 £ | 2000 £ |
|------------------------------|-------------------|-------------------|
| Promissory note | | |
| Between one and two years | <u>7,343,808</u> | <u>6,980,994</u> |
| Intercompany loans | | |
| Between one and two years | 546,424 | 546,424 |
| Between two and five years | 1,639,272 | 1,639,272 |
| After five years | <u>8,933,306</u> | <u>8,633,306</u> |
| | 11,119,002 | 10,819,002 |
| On demand or within one year | <u>546,424</u> | <u>546,424</u> |
| | <u>11,665,426</u> | <u>11,365,426</u> |

14 Deferred taxation

No deferred taxation has been provided because the directors have concluded, on the basis of reasonable assumptions and the intentions of management that it is improbable that any liability will crystallise in the foreseeable future due to significant brought forward tax losses.

Notes to the financial statements (continued)

15 Called-up share capital

| | 2001 £ | 2000 £ |
|---|-----------|-----------|
| <i>Authorised</i> | | |
| 2 ordinary shares of £1 each | <u>2</u> | <u>2</u> |
| <i>Allotted, called-up and fully-paid</i> | | |
| 2 ordinary shares of £1 each | <u>2</u> | <u>2</u> |

16 Reserves

Of total reserves shown in the balance sheet, the following amounts are regarded as distributable or otherwise:

| | 2001 £ | 2000 £ |
|------------------------------|-------------------|-------------------|
| Non-distributable | | |
| - profit and loss account | (2,096,801) | (192,783) |
| - additional paid in capital | <u>18,373,674</u> | <u>17,573,674</u> |

The movement in the profit and loss account was as follows:

| | 2001 £ | 2000 £ |
|-------------------------|--------------------|------------------|
| At beginning of year | (192,783) | 784,556 |
| Loss for financial year | <u>(1,904,018)</u> | <u>(977,339)</u> |
| At end of year | <u>(2,096,801)</u> | <u>(192,783)</u> |

Reconciliation of movements in shareholders' funds

| | 2001 £ | 2000 £ |
|-------------------------------------|--------------------|-------------------|
| Loss for financial year | <u>(1,904,018)</u> | <u>(977,339)</u> |
| Net decrease in shareholders' funds | (1,904,018) | (977,339) |
| Additional paid in capital | 800,000 | 3,960,000 |
| Opening shareholders' funds | <u>17,380,893</u> | <u>14,398,232</u> |
| Closing shareholders' funds | <u>16,276,875</u> | <u>17,380,893</u> |

The additional paid in capital in both years represents amounts received from Sheraton Hotels England Limited.

Notes to the financial statements (continued)

17 Guarantees and other financial commitments

a) Capital commitments

At the end of the year, capital commitments were:

| | 2001 £ | 2000 £ |
|-------------------------------------|---------------|------------------|
| Contracted for but not provided for | <u>83,000</u> | <u>2,000,000</u> |

b) Lease commitments

The company has entered into non-cancellable leases in respect of property, plant and equipment, the payments for which extend over a period of up to 7 years.

The minimum annual rentals under the foregoing leases are as follows:

| | 2001 £ | 2000 £ |
|--|---------------|---------------|
| Operating leases which expire - within 1 year | <u>95,768</u> | <u>85,339</u> |

c) Pension arrangements

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested by independent fund managers.

Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of valuations using the attained age method.

The pension charge for the year was £97,915 (2000 - £92,406).

The most recent valuation was at 31 December 2000. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 6.5% per annum, that salary increases would average 4.5% per annum and that present and future pensions would increase at the rate of 3% per annum.

The most recent actuarial valuation showed that the market value of the scheme's assets was £3,512,000 (2000: £3,512,000) and that the actuarial value of those assets represented 113.9% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees were 17.4% and 9.3% respectively during the year.

Notes to the financial statements (continued)

17 Guarantees and other financial commitments (continued)

c) Pension arrangements (continued)

Additional disclosures regarding the company's defined benefit pension scheme are required under the transitional provisions of FRS 17 "Retirement benefits" and these are set out below. The disclosures relate to the first year of the transitional provisions. They provide information which will be necessary for full implementation of FRS 17 in the year ending 31 December 2003.

The actuarial valuation described above has been updated at 31 December 2001 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value.

The major assumptions used for the actuarial valuation were:

31 December 2001

| | |
|---|------|
| Rate of increase in salaries | 4.0% |
| Rate of increase in pensions in payment | 2.5% |
| Discount rate | 6.0% |
| Inflation assumption | 2.5% |

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:

| | |
|-------------------------------------|-------------------------------|
| | 31 December 2001 £000's |
| Equities | 2,466 |
| Bonds | 436 |
| Property | 117 |
| Cash | 49 |
| Total fair value of assets | 3,068 |
| Present value of scheme liabilities | (3,170) |
| Deficit in the scheme | (102) |
| Related deferred tax asset | 31 |
| Net pension liability | (71) |

Notes to the financial statements (continued)

17 Guarantees and other financial commitments (continued)

c) Pension arrangements (continued)

If the above pension liability was recognised in the financial statements, the company's net assets and profit and loss reserve would be as follows:

| | At 31 December 2001 £000's |
|--|-------------------------------------|
| Net assets excluding pension liability | 16,277 |
| Pension liability | (71) |
| Net assets including pensions liability | <hr/> 16,206 |
| Profit and loss reserve excluding pensions liability | (2,097) |
| Pension reserve | (71) |
| Profit and loss reserve | <hr/> (2,168) |

18 Related party transactions

The company is exempt from the requirement of FRS 8 to include details of transactions with other group companies.

19 Ultimate parent company

The immediate parent company is SLC Operating Limited Partnership.

The smallest and largest group in which the results of SLC Turnberry Limited are consolidated, is that headed by Starwood Hotels and Resorts Worldwide Inc. The consolidated financial statements of this group are available to the public at:

Starwood Hotels and Resorts Worldwide Inc.
Investor Relations
1111 Westchester Avenue
White Plains
NY
10604